Common Types of Fraud Aimed at Older Americans

Scams aimed at older Americans can take many forms — unregistered securities, promissory notes, charitable gift annuities, viatical settlements, Ponzi schemes and the like. Before investing even a dollar, make sure you take the time to research all investment offers, using a reputable source. Indiana Secretary of State, Todd Rokita, is here to help. Below is a description of some of the most common types of fraud facing retirees. For more information, please visit **www.IndianaInvestmentWatch.com** or call **800.223.8791**.

UNREGISTERED SECURITIES

Securities regulators, both at the national and state levels, exist to regulate the securities industry and bring to justice people who break the applicable laws. Unfortunately, entirely too many people do not realize the value of their securities regulators until after they have become victims of fraud.

Con artists often promise high returns on investment opportunities that they cannot truly guarantee. These swindlers prey on victims with high-pressure tactics — not giving the victims enough time to check out the investment first. Con artists also prey on many victims who may not know that they can call securities regulators for assistance.

It is important to remember that all investment opportunities must either be registered or exempt from registration. A quick call to Indiana Secretary of State Todd Rokita's office at **800.223.8791** can help investors take the appropriate steps to make sure the opportunity and the person selling it are legitimate.

The Honorable Todd Rokita
Indiana Secretary of State

The Office of the Indiana Secretary of State
Securities Division

O. Wayne Davis
Securities Commissioner

Stephanie L. Beck
Investor Education Coordinator

Kellie M. Duke
Director of Investor Education

To request additional copies of this or other materials, please contact:

Indiana Secretary of State Todd Rokita
Investor Education Program
302 West Washington Street
Room E-111
Indianapolis, Indiana 46204
Phone: 317.232.6681
Toll-free: 800.223.8791
Fax: 317.233.3675
www.IndianaInvestmentWatch.com

INDIANA INVESTMENT WATCH

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PROMISSORY NOTES

While promissory notes can be a legitimate form of investment, often they are touted by con artists who convince unsuspecting investors to turn over their money.

One of the largest problems with promissory note fraud is that many people do not realize the high risk typically associated with promissory notes. Promissory notes often offer the potential for very high returns, but high returns always means higher risk.

Most legitimate forms of promissory notes are actually sold to what are known as "sophisticated investors" — those who have the means to thoroughly research the opportunity and who can afford to invest (and potentially lose) a large sum of money. Corporate investors often fall into this category.

The average senior citizen, on the other hand, does not. Promissory notes are a pressing issue, and more extensive information is available through the Office of the Indiana Secretary of State.

CHARITABLE GIFT ANNUITIES

Plainly defined, an annuity is a contract for a payment of a specified amount of money payable over a period of time. In these simple terms, the concept of an annuity is not much different than a car loan or a mortgage payment. When considered in terms of investing, annuities are often linked to retired individuals.

Annuities are an attractive investment generally offered through an insurance company. An individual will give the company a specific amount of money that is to be paid back to the investor over a period of time. In addition to the principal amount of money, the investor will be paid interest for allowing the company offering the annuity to use his/her money.

An individual choosing to invest in annuities essentially gives a loan to a company and then collects interest as the money is returned. These investments are generally attractive because they are usually touted with some form of protection, and they pay a fixed amount over the long term. For a retired person, this could be appealing because it promises a steady, "insured" income.

It is important to realize, however, that no investment is truly insured. An insurance company will claim some form of protection when investing in annuities; however, unforeseen circumstances could cause loss of money to the investors (e.g., the company goes out of business).

There are several kinds of annuities, and these are addressed more specifically in annuity-focused literature. When discussing fraud aimed at seniors, the term charitable gift annuity is a familiar buzzword. A charitable gift annuity works much like a regular fixed annuity, except the charity — rather than an insurance company — offers the annuity and benefits from the investment. While most annuities offered by charitable organizations are legitimate investments, investors should be cautious of little-known organizations or those that provide only minimal information.

VIATICAL SETTLEMENTS

Originating as a way to help the gravely ill pay their bills, these interests in the insurance death benefits of terminally ill patients are always risky and sometimes fraudulent. The insured gets a percentage of the death benefit in cash, and the investors get a share of the death benefit when the insured dies.

Because of uncertainties in predicting when someone will die, these investments are extremely speculative. With the constant advancements in modern medicine, a terminally ill person could live longer than anticipated. The longer the individual lives, the less the policy is worth to the investor. While the opportunity seems like an extremely sound investment, choosing to invest in viaticals can be a very risky decision, even when done legitimately.

PONZI SCHEMES

Named for the scam artist Charles Ponzi, who swindled his investors out of millions of dollars in a matter of days, Ponzi schemes operate under the notion of "robbing Peter to pay Paul." A Ponzi scheme promotes an investment opportunity with the promises of high returns and then — in order to make it appear legitimate — pays back its earlier investors with the money from later investors.

Although the original scam — run by Ponzi himself — dates back to the 1920s, its tactics are still widely used today. Always in style, these swindles promise high returns to investors, but the only people who consistently make money are the promoters who set them in motion.